

June 11, 2000

TO: Senator Sid Snyder, Chairman
Senator Dan McDonald
Representative Hans Dunshee
Representative Brian Thomas
Fred Kiga, Director, DOR
Marty Brown, Director, OFM

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: JUNE 10, 2000 REVENUE COLLECTION REPORT

General Fund-State collections were again above expectations in the May 11- June 10 collection period, exceeding the February forecast by \$7.6 million. Revenue Act (retail sales, b&O, use and public utility taxes) accounted for most of this month's variance, with receipts \$11.7 million higher than expected. Real estate excise and timber excise tax payments were also a little stronger than assumed in the February forecast. Lottery deposits to the General Fund and "other" collections and transfers reported by the Department of Revenue were below expectations for the month. With another positive showing this month, the cumulative variance for the four months since the February forecast is now \$89.3 million (2.9 percent). This is an unusually large variance. The variance would have been even larger were it not for a significant shortfall in lottery sales and transfers during this period. The size of the variance is due to an acceleration of revenue growth. The February forecast had assumed revenue growth would begin to slow in the first quarter. Strong economic conditions continue to produce better than expected growth. Nationally, most sectors of the economy continued to expand in the first quarter. This is especially true of the consumer sector. Consumption spending increased in the first quarter at a 7.9 percent annual rate, the strongest growth since 1983. At the state level, economic conditions have also remained very positive. The state's unemployment rate in April stood at 4.6, although this was up from 4.5 percent in March it remains 0.2 percent less than a year-ago. Wage and salary employment grew 2.5 percent in the first quarter. This was stronger than fourth quarter 's 1.7 percent increase and was significantly above the 0.5 percent increase expected in the February Forecast. Confidence appears intact despite a large drop in personal income in the first quarter due to the decline in the value of Microsoft stock option income (income from the exercise of stock options are counted as wages, a component of personal income). Revenue growth was strong despite this loss in income.

Revenue Act collections this period primarily reflect April 2000 business activity. Revenue Act receipts this month were 5.8 percent above the year-ago level (adjusting for legislation and special factors). April's increase was only a little less than last month's 6.4 percent increase, although it was well below

the 8.6 percent average increase in the first quarter. Nationally, there are some signs that the economy is slowing: higher interest rates has slowed housing purchases, manufacturing output continues to be weak and based on May data, employment growth has started to slow. However, it is still too early to tell if this simply indicates a pause from the unsustainable high pace of activity earlier in the year or if it means the monetary tightening by the Federal Reserve is starting to have some real impact.

Preliminary data on tax payments in the current month indicate moderate growth. After three months of double-digit increases, retailing growth was back to single digits with the sector as a whole up 5.8 percent. The General Merchandise sector was the strongest retailing sector, up 8.4 percent; it had performed relatively poorly the last three months. The strongest growth this month was in the construction, transportation, communications and utilities, and the finance insurance and real estate sectors, all reporting double-digit increases.

Other General Fund taxes collected by the Department of Revenue were \$3.7 million below the estimate for the month. A little stronger than expected estate tax, timber excise tax and real estate excise tax payments were more than offset by a shortfall in the "other" revenue category and property tax payments. Property tax receipts were a little below the estimate for the month but this simply reflects the strength shown the last three months. Cumulatively, property tax receipts are still \$4.9 million above the forecast. The majority of this month's shortfall in the "other" revenue category reflects the transfer of rental car receipts collected since January from the General Fund to the Multimodal Account. This transfer was expected in April but did not occur until this month, hence the large negative variance for the month but relatively small variance cumulatively.

Although Non Revenue Act receipts were down for the month, all major revenue sources are above the estimate cumulatively since the February forecast. Property tax receipts are \$4.9 million higher than the estimate, however, some of the strength in property tax collections is likely due to seasonal factors and is expected to be offset in future months. Timber excise tax receipts are \$3 million higher than expected due to a delay in the implementation of a tax law change. The February forecast assumed that tax credits authorized by 1999 legislation would be effective in March 2000. However, these credits were not effective until April, resulting in \$3 million more timber excise tax receipts than expected.

Real estate activity continues to weaken, although it is still a little stronger than assumed in the February forecast. Taxable real estate activity declined 3.4 percent in April (April closings reported by counties reflecting payment to the state in May). This is the third time in four months with a year-over-year decline in taxable activity. For the year-to-date activity is down 2.6 percent. The decline in the number of transactions is greater, with transactions down 12.5 percent in April and 6.3 percent for the year-to-date. Most of the strength in real estate activity is in King County that is still benefiting from strong price appreciation. Taxable real estate activity was up 11.7 percent in King County in April, while declining 13.9 percent in the rest of the state, including large declines in Snohomish, Spokane and Pierce Counties.

Other agencies' collections were \$0.4 million below the forecast in May. Department of Licensing's General Fund collections were \$533,000 above the estimate for the month and are virtually right on the estimate for the four months since the February forecast. Lottery General Fund transfers were \$981,000 below the estimate in May and are \$9.5 million less than expected in the last four months. The attached Table 1 provides a comparison of collections with the February forecast for the May 11 - June 10, 2000 collection period and cumulatively since the February 2000 forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

CMS:cg

Attachments

TABLE 1
Revenue Collection Report
May 11 - June 10, 2000 Collections Compared to the February 2000 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
May 11 - June 10, 2000				
Department of Revenue-Total	\$991,898	\$999,903	\$8,004	0.8%
Revenue Act** (1)	570,153	581,819	11,666	2.0%
Non-Revenue Act(2)	421,745	418,083	(3,662)	-0.9%
Liquor Sales/Liter	6,557	6,287	(269)	-4.1%
Cigarette	5,239	5,257	18	0.3%
Property (State School Levy)	349,460	347,754	(1,706)	-0.5%
Estate	4,861	6,308	1,446	29.8%
Real Estate Excise	32,768	33,177	409	1.2%
Timber (state share)	1,614	4,746	3,132	194.1%
Other	21,246	14,554	(6,692)	-31.5%
Department of Licensing (2)	3,241	3,775	533	16.5%
Lottery (2)	11,835	10,854	(981)	-8.3%
Total General Fund-State***	\$1,006,974	\$1,014,531	\$7,557	0.8%
Cumulative Variance Since the February Forecast (February 11 - June 10, 2000)3				
Department of Revenue-Total	\$2,987,041	3,085,694	98,654	3.3%
Revenue Act** (3)	2,354,569	2,437,384	82,815	3.5%
Non-Revenue Act(4)	632,472	648,310	15,838	2.5%
Liquor Sales/Liter	24,450	24,614	164	0.7%
Cigarette	21,208	23,269	2,062	9.7%
Property (State School Levy)	406,385	411,316	4,930	1.2%
Estate	24,825	26,802	1,978	8.0%
Real Estate Excise	112,013	115,131	3,119	2.8%
Timber (state share)	6,150	9,200	3,050	NA
Other	37,443	37,978	535	1.4%
Department of Licensing (4)	7,448	7,750	302	4.1%
Lottery (4)	48,285	38,834	(9,452)	-19.6%
Total General Fund-State***	\$3,042,774	\$3,132,278	\$89,504	2.9%

1 Collections May 11 - June 10, 2000. Collections primarily reflect April 2000 activity of monthly taxpayers.

2 May 1-31, 2000 collections.

3 Cumulative collections, estimates and variance since the February forecast; (February 11-June 10, 2000) and revisions to history.

4 Cumulative collections, estimates and variance since the February forecast; (February - May 2000) and revisions to history.)

* Based on the February 2000 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission, about 97% of total General Fund-State.

TABLE 2
May 10, 2000 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections Preliminary</u>	<u>Revised</u>	<u>Difference Amount</u>	<u>Percent</u>
April 11 - May 10, 2000				
Department of Revenue-Total	\$870,120	\$870,120	(\$0)	-0.0%
Revenue Act (1)	761,968	761,968	0	0.0%
Non-Revenue Act(2)	108,152	108,152	(0)	-0.0%
Liquor Sales/Liter	6,804	6,804	(0)	-0.0%
Cigarette	5,282	5,282	0	0.0%
Property (State School Levy)	44,628	44,628	0	0.0%
Estate	4,698	4,698	(0)	-0.0%
Real Estate Excise	33,587	33,587	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	13,153	13,153	0	0.0%
Department of Licensing (2)	3,026	3,026	0	0.0%
Lottery (2)	7,868	7,868	0	0.0%
Total General Fund-State***	\$881,014	\$881,014	\$0	0.0%

Cumulative Variance: February 11 - May 10, 2000 & Revisions to History

Department of Revenue-Total	2,085,792	\$2,085,792	(\$0)	-0.0%
Revenue Act (3)	1,855,565	1,855,565	(0)	-0.0%
Non-Revenue Act(4)	230,227	230,227	0	0.0%
Liquor Sales/Liter	18,327	18,327	(0)	-0.0%
Cigarette	18,012	18,012	0	0.0%
Property (State School Levy)	63,561	63,561	0	0.0%
Estate	20,495	20,495	(0)	-0.0%
Real Estate Excise	81,955	81,955	(0)	-0.0%
Timber (state share)	4,454	4,454	0	NA
Other	23,424	23,424	0	0.0%
Department of Licensing (4)	3,976	3,976	(0)	-0.0%
Lottery (4)	27,980	27,980	0	0.0%
Total General Fund-State***	2,117,747	\$2,117,747	\$0	0.0%

P-Preliminary. Reported in the May 10, 2000 collection report.

R Revised data.

1 Collections April 11 - May 10, 2000. Collections primarily reflect March 2000 business activity of monthly taxpayers and Jan-March activity of quaterly filers.

2 April 1-30, 2000 collections.

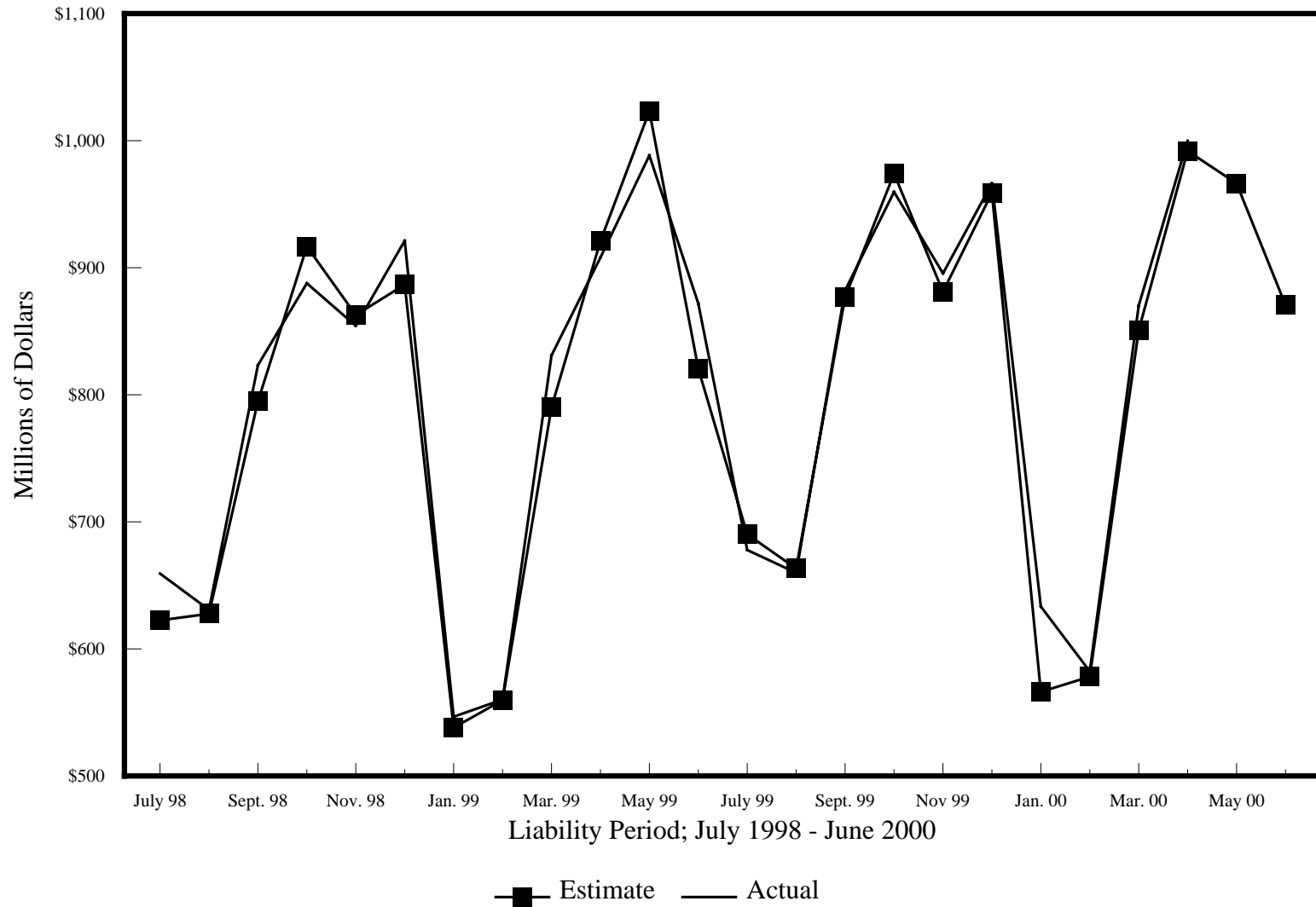
3 Cumulative variance for since the February forecast: February 11 - May 10,2000 & revisions to history.

4 Cumulative variance: since the February forecast (February - April 2000) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

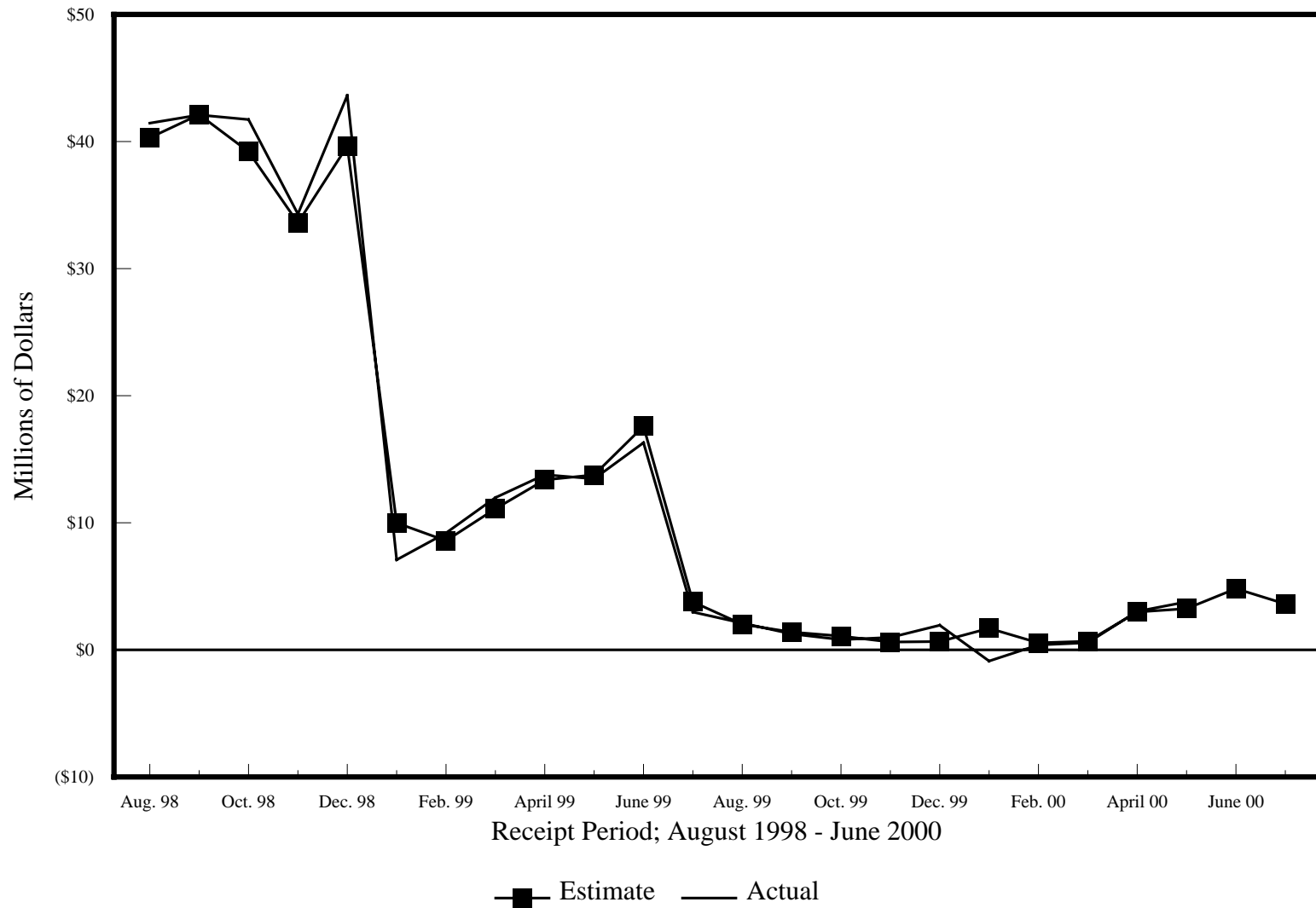
Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to June 2000



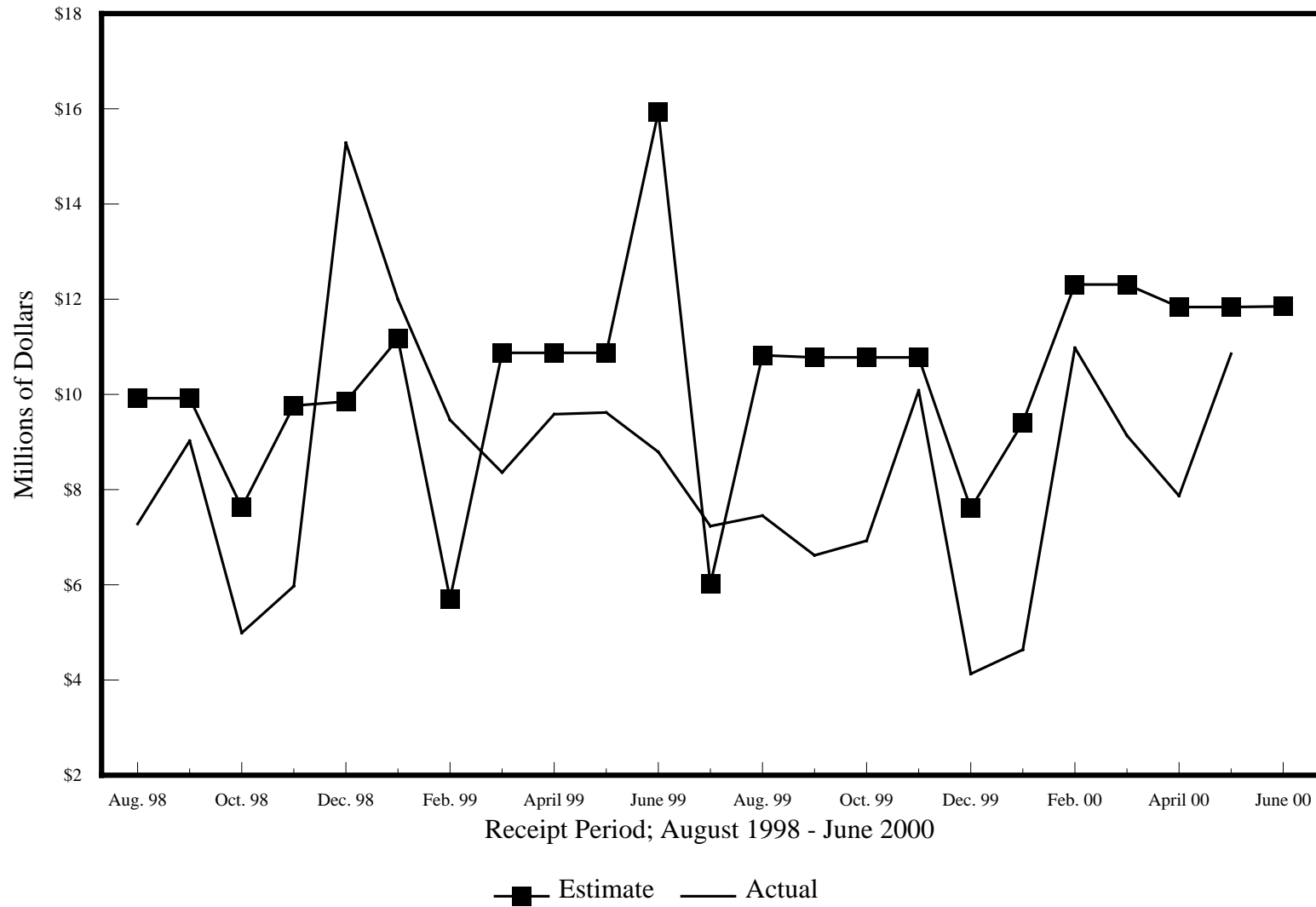
Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to June 2000



Lottery General Fund-State Transfers, Actual vs. Estimate

August 98 to June 2000



Revenue Act Net Collections

Year-over-Year Percent Change

